



This is a digital copy of a book that was preserved for generations on library shelves before it was carefully scanned by Google as part of a project to make the world's books discoverable online.

It has survived long enough for the copyright to expire and the book to enter the public domain. A public domain book is one that was never subject to copyright or whose legal copyright term has expired. Whether a book is in the public domain may vary country to country. Public domain books are our gateways to the past, representing a wealth of history, culture and knowledge that's often difficult to discover.

Marks, notations and other marginalia present in the original volume will appear in this file - a reminder of this book's long journey from the publisher to a library and finally to you.

### Usage guidelines

Google is proud to partner with libraries to digitize public domain materials and make them widely accessible. Public domain books belong to the public and we are merely their custodians. Nevertheless, this work is expensive, so in order to keep providing this resource, we have taken steps to prevent abuse by commercial parties, including placing technical restrictions on automated querying.

We also ask that you:

- + *Make non-commercial use of the files* We designed Google Book Search for use by individuals, and we request that you use these files for personal, non-commercial purposes.
- + *Refrain from automated querying* Do not send automated queries of any sort to Google's system: If you are conducting research on machine translation, optical character recognition or other areas where access to a large amount of text is helpful, please contact us. We encourage the use of public domain materials for these purposes and may be able to help.
- + *Maintain attribution* The Google "watermark" you see on each file is essential for informing people about this project and helping them find additional materials through Google Book Search. Please do not remove it.
- + *Keep it legal* Whatever your use, remember that you are responsible for ensuring that what you are doing is legal. Do not assume that just because we believe a book is in the public domain for users in the United States, that the work is also in the public domain for users in other countries. Whether a book is still in copyright varies from country to country, and we can't offer guidance on whether any specific use of any specific book is allowed. Please do not assume that a book's appearance in Google Book Search means it can be used in any manner anywhere in the world. Copyright infringement liability can be quite severe.

### About Google Book Search

Google's mission is to organize the world's information and to make it universally accessible and useful. Google Book Search helps readers discover the world's books while helping authors and publishers reach new audiences. You can search through the full text of this book on the web at <http://books.google.com/>

HG

A

742,542

HG

2987

.646







  
THE

# LETTERS OF NEHEMIAH;

RELATING TO

THE LAWS AFFECTING

JOINT STOCK BANKS,

AND

THE EFFECTS LIKELY TO BE PRODUCED,

BY THE

MEASURES OF SIR ROBERT PEEL,

UPON THE

SYSTEM OF BANKING IN LONDON,

AND THROUGHOUT THE COUNTRY.

*By James William Gilbart.*

---

LONDON:

---

1845.

HG

2987

G 46

These Letters were originally given to the Public through the periodical press, under the signature of "NEHEMIAH," and afterwards circulated among the Joint Stock Banks. The first was written a short time previous to the last session of Parliament;—the second soon afterwards, when an impression prevailed that a plan would be proposed for the establishment of one Bank of Issue;—the third, immediately after Sir Robert Peel had announced his measures in the House of Commons, and before the Deputies from the Joint Stock Banks had held their meeting for the purpose of considering them,—and the fourth after those measures had become law. They are now printed together (not published) for the gratification of such of my Friends as may still feel an interest in the perusal.

J. W. G.

*Lothbury, January, 1845.*

# LETTERS OF NEHEMIAH.

## LETTER I.

### THE DEFECTS IN THE LAW RELATING TO JOINT STOCK BANKS.

*To the Editor of the* \* \* \* \*

SIR,—As the charter of the Bank of England is liable to expire upon twelve months' notice, if given within six months after the 1st of August next, the subject of banking will probably be brought under the consideration of the next session of Parliament. I trust, therefore, you will give me permission to lay before your readers a statement of some of the defects in the present state of the laws relating to joint-stock banks.

Joint-stock banks have now been established in London for about ten years. Their paid-up capital exceeds two millions sterling. The deposits placed in their hands by the public have been estimated to amount to between six and seven millions. Their shareholders number about 3,000 persons, among whom are some of the wealthiest and most respectable men in the kingdom.

Yet these powerful companies are beyond the pale of the law. Practically they are denied admissions into our courts of justice.

When a person opens an account with one of these banks, he signs an agreement, covenanting to pay to certain other persons therein named any debts that may become due by him to the bank. These contracts are legally binding, and hence the law provides a loophole of escape from the injustice of its own enactments. But is it not a disgrace to the legislature of any civilised country that such a loophole should be rendered necessary.

The London joint-stock banks are agents to many other banks located in the country, in Ireland, and in the colonies. It is the legitimate business of these banks to draw bills upon their London agents. But banks in London having more than six partners are not permitted to accept bills drawn at a shorter period than six months after date, while banks not having more than six partners may accept bills drawn at any term.

This state of the law has compelled the adoption of other measures on the part of the banks—as bills at such dates as the demands of business require cannot be accepted by the London agents, the country banks draw bills at the required dates “without acceptance.” This practice is supposed to be warranted by the conduct of the Bank of Ireland and the Royal Bank of Scotland, whose drafts on the Bank of England are drawn in this way. I will not stop to enquire into the inconvenience, of this system, nor is it necessary. That joint-stock banks are compelled to adopt a practice different from that of other banks, is quite a sufficient proof that the law with reference to them is partial, oppressive, and unjust.

Such is the unrighteous state of the law of banking in London. Between London and the distance of sixty-five miles it is worse. If a dealer sells his goods in London, he will be paid in notes that he can take with safety; but beyond ten miles from London he will be paid in notes issued by banking firms consisting of not more than six persons. Within the last ten years not a few of these firms have failed, and the holders of their notes have suffered loss.



But no firms of more than six persons can issue notes within this distance; hence the distress caused by the failure of private banks admits of no alleviation. Beyond this distance, if a private bank stops, the branch of some joint-stock bank steps in and fills up the vacuum. But this is holy ground, on which a joint-stock bank of issue must not place its unhallowed feet. Beyond this distance, a weak but not insolvent private bank may transfer its business on equitable terms to a joint-stock bank; but here, however desirous a private banker may be to effect such an arrangement, he cannot obtain the value of his business, for he cannot transfer the value of his circulation.\* He may look over the sixty-five mile hedge, and see that in the distance beyond above 130 private banks have thus transferred their business to larger banking companies, but he can anticipate no such good fortune for himself. He may be asked to afford assistance to the trade and the agriculture of the district, and he may wish to do so, but he has not the means, and he may deeply regret that the law prohibits his calling in the aid of a more powerful company, who would allow him to distribute to his customers the more ample funds they would place under his administration.

The reason assigned for inflicting on this district all the evils of an insecure system of banking, is—that the Bank of England ought to have a monopoly of the circulation of London. But even supposing this were necessary, is not the distance of sixty-five miles far too great? Would not ten or fifteen miles be amply sufficient?

But beyond the distance of sixty-five miles from London, what there is the state of the law with regard to joint-stock banks? A few years ago the admission of a clergyman as a shareholder would place the whole company beyond the pale of the law; any shareholder might incur debts to the company, and no law existed to compel him to pay those debts; and he might steal all the notes in their vaults, and there was no law to inflict punishment. These things are now happily altered; but still these banks, like others, have much to desire in banking legislation. There are questions about the laws of partnership, about the liability of shareholders, about the registration of proprietors, about the best mode of suing and being sued, about stamp duties on deeds of transfers, about liens on shares, and other matters, that demand the prompt attention of the legislature.

But what shall we say of Ireland? In Dublin, and within a circle of fifty miles, the joint-stock banks are subject to the same disabilities as those in London. They cannot accept bills for banks in Belfast or elsewhere, to whom they may be the Dublin agents, nor can they draw bills on their own agents in London or elsewhere. They are beyond the pale of the law in matters of suit, and, like their brethren in London, are obliged to have recourse to special contracts made with their trustees. They cannot issue notes in Dublin, or within a distance of fifty Irish miles. These grievances of the Dublin banks appear more galling when contrasted with the freedom given to the same kind of banks in Edinburgh. Those banks, too, that issue notes beyond the fifty miles from Dublin are prohibited from establishing even a non-issuing branch within the circle, or carrying on the business of banking in Dublin. Thus we find, that in a country whose great want is notoriously a want of capital,—banking companies, which are the great fountains and distributors of capital, are placed under legal restrictions which contract their operations, and render them less efficient in promoting the happiness of the people.

It is high time for those who wish the banking institutions of the country to be placed on a just and proper basis, to arouse from their lethargy. This ought not to be considered as a mere squabble between rival banks, or only a question of pounds, shillings and pence. It is a question that involves principles of national prosperity and of moral obligation. The laws which regulate

\* This is now the case also with joint-stock banks beyond the distance of sixty-five miles from London.

our banking companies are a scandal to the country, an outrage upon common sense, a violation of the most sacred maxims of equity, and a disgrace to the civilization of the age. Every patriot, every philanthropist, every honest man, should move heaven and earth to obtain their amelioration.

I am, Sir, your obedient servant,

NEHEMIAH.

London, December, 1843.

## LETTER II.

### THE EFFECTS OF A SOLE BANK OF ISSUE.

To the Editor of the \* \* \* \*

SIR,—In my former letter I pointed out the unrighteous state of our laws with regard to joint-stock banks. I now ask permission to lay before your readers a summary of the evidence given before the Parliamentary Committee on Banks of Issue in 1841, upon the establishment of a sole Bank of Issue.

I am, Sir, your obedient servant,

London, January, 1844.

NEHEMIAH.

### *A Summary of the Evidence given before the Parliamentary Committee on Banks of Issue, in 1841, upon the Establishment of one Bank of Issue.*

- 1.—*If we had only one Bank of Issue we should have sometimes too much Money and sometimes too little for the wants of Trade.*

"I think it is one of the inconveniences of a metallic currency, and would, in fact, be one of the inconveniences of a sole bank of issue, that at one part of the year we should have too much money, and at another part too little; because, as money would not fluctuate in amount, and the demands of trade would fluctuate, the amount of money would not be proportionate throughout the year to the demands of trade."

.... "I have shewn from Appendix 34, that even taking the whole circulation together, there is a difference, varying from two to four millions, in the total amount of the circulation; and, therefore, after supposing all these transfers to have taken place, if they could have taken place at all, and that the surplus of one district was to supply the wants of another, still there would be a very great inequality in the amount of money, as compared with the demands of trade."—*Gilbart.*

"It appears from Appendix 34, that the total amount of notes in England, Scotland, and Ireland, varies very considerably in different months of the year. Supposing, then, that you had one bank, and that all the notes in circulation were the notes of that one bank, which did nothing but issue notes against gold, and gold against notes, how would you employ those notes which were not wanted in the slack periods of the season?".... "It is evident from Appendix 34, that during some part of the year there is not employment for the entire amount of money that is required in another season of the year; and if you had one bank of issue, as you could not contract the circulation, you would have a surplus circulation, which would have the effect of lowering the rate of interest, and promoting speculation."—*Gilbart.*

- 2.—*It would reduce the Means of the Country Bankers to afford Assistance to their Customers, and hence cause great Distress, especially in the Agricultural Districts.*

"What would be the effect which you think it would produce upon country bankers?".... "I think the banks, in the first place, having to pay off their notes, it would reduce their funds, from which they now give accommodation to their customers; and in order to find funds to pay off those notes, they would have to recal loans, and to reduce discounts to such a degree as to cause considerable distress throughout the country, and more especially in the agricultural districts."—*Gilbart.*

"Of your gross annual profits, would the loss of your annual issue be a serious diminution?".... "I think it would be so; and, as I believe I stated before, in

answer to one of the questions, I consider the circulation of a respectable bank has added very much to their other means of deposit on account; where circulation has been conducted well for fifty years, and has been payable at all times, and under all the storms we have had, it has added to the other business of the bank very much, it has had what may be called a moral effect."

"And the loss of profit arising from your circulation would diminish your power of accommodation greatly?"... "Very much, indeed."—*Stuckey*.

"Is not your circulation in the nature of additional capital employed in your business, so that if the circulation were taken away from you, you would be obliged to introduce into your business an additional capital, something near the same amount, in order to carry on the same extent of banking business which you carry on at present?"... "The vacuum created by the withdrawal of our circulation must be supplied from some source."

"Assuming, for argument's sake, that you were forbidden to issue any more circulation, it would be necessary for you to acquire to yourself a circulation from other sources, by disposing of the amount of securities you now hold?"... "I apprehend it would."

"Would not that be tantamount, therefore, to a certain loss of profit upon those securities which you now hold, and in respect of the future conduct of your business, would it not be tantamount to the loss of so much capital?"... "I conceive that it would."

"In the practical conduct, then, of your business, the question as to your retaining or not retaining your circulation, is a question as to what extent of banking business you can carry on, and what degree of profit you can obtain out of it by the present system?"... "It is."... *Rodwell*.

### 3.—*The Bankers would be compelled to increase their Charges.*

"What effects do you imagine would ensue when the measure had once been carried into effect?"... "After the measure had once been carried into effect, the charges which the country bankers would be compelled to make upon that accommodation, which they would still have the power of affording, must be considerably increased."

"Why?"... "Because they would then get no profit upon the notes; at present they can afford to advance money at a low rate of interest when issued in their own notes, because of the profit upon those notes. When I was in Ireland, I discounted bills at the same rate which was charged by the Bank of England here, and for the same reason, because I issued my own notes; but if the country bankers had to bring the money from a distance and lend it to their customers, they must get a greater interest from their customers than they could get by employing in London or elsewhere, and hence they must make, either in the form of interest, or in the form of commission, heavier charges than they made before."—*Gilbart*.

### 4.—*It would cause some of the smaller Banking Establishments to be discontinued.*

"The profit on the circulation being thus reduced, there would be a further effect by the limitation of banking establishments; for some of those establishments are so small, and established in remote places, that they would scarcely pay the expense of conducting them, unless for the profits of the circulation; and yet the withdrawal of those establishments, though connected with no great profit to the bank, would be attended with very considerable loss and inconvenience to the inhabitants of those places, because those banks act as receivers of the surplus capital, and hence they are useful to persons who have money to place in those banks; they act as discounters and granters of loans, and hence they are useful to the productive industry of the country; they are also useful as banks of remittance, for the purpose of making payments from those places elsewhere, and hence they are useful to traders; and those useful purposes, as far as many small banks are concerned, would be altogether annihilated, if those establishments did not issue their own notes."—*Gilbart*.

"In your opinion, the suppression of their circulation would render it necessary for them to charge a higher commission upon their operations, or a higher interest upon the loans which they make?"... "With regard to those small establishments, I do not think any rate of commission could pay the expense; with regard to the

larger establishments, you might make up for the deficiency of profit upon the circulation by an increased charge of commission; but with regard to small establishments, in remote places, the business is not sufficient, even with the charge of commission, to pay the expense without the profits of the circulation: annihilation of the circulation would lead to annihilation of the bank."—*Gilbart*.

5.—*It would lead to the Substitution of Bills of Exchange, or some other Form of Credit Currency.*

"Did you conceive that it would have any effect upon what you have called the amount of the circulation, which in your opinion is required at different times of the year?"... "I think it would have a considerable effect generally in the reduction of the circulation, because if the circulation was issued by one single bank, the local bankers in the respective districts would have no interest in increasing the amount of that circulation, and hence, in places where it could be done, the bankers would most likely have recourse to a bill circulation, and they would substitute bills for the circulation of this one bank of issue. We know that at Manchester and Liverpool, and in other places in that district, a bill circulation a short time ago was almost the entire circulation; and it was not till the Bank of England established branches in those places, that the bill circulation became considerably reduced, and even then the bank obtained a circulation in those places only by offering their notes to country bankers at a reduced rate of interest. Now, if you had only one bank of issue, it is not to be supposed that the country bankers would obtain those notes at a reduced rate of interest, and consequently they would have no advantage in getting them into circulation; they would fall back upon their bill circulation, upon which they got a profit, and the amount of note circulation, would, I think, be considerably reduced."—*Gilbart*.

"Small bills of exchange, the circulation in your neighbourhood being full, are almost unknown at present?"... "They are."

"If a limitation were put upon the circulation of local paper payable to bearer, have you a strong opinion that any legislative power whatever could prevent the circulation of credit in some other shape, such as small bills of exchange?"... "I think that no legislative interference could, by any possibility, prevent it, in a much more objectionable form than it is now."

"Therefore, it does not follow that if local credit ceases to circulate to its present extent, further capital must be introduced into the neighbourhood; it would be quite possible that credit in another shape would circulate, and fill up the vacuum caused by the withdrawal of the notes?"... "Undoubtedly,"—*Rodwell*.

6.—*With one Bank of Issue the re-actions of the Foreign Exchanges would produce great and universal Distress, and yet not accomplish that constant conformity between the London and Country Circulation which is sought to be attained.*

"Do you conceive that such a change as has been contemplated, namely, the abolition of country bank notes, would produce any effect upon the foreign exchanges?"... "The effect upon the foreign exchanges would depend upon the principle upon which the single bank of issue was conducted. If conducted merely by issuing gold for notes and notes for gold, I consider that when the foreign exchanges were favourable, and brought in a large amount of gold, then there would be a large amount of notes put into circulation. I think that was the case in 1837 and 1838, although the Bank of England did not issue to such an extent, as, upon the principle assumed, this one bank of issue would be compelled to do. I consider that thus this large amount of notes put into circulation against the importation of gold would reduce the rate of interest, would excite speculation, and lead to foreign investments; that a re-action would then take place, and the amount of contraction would be very considerable, so as to produce very great distress."—*Gilbart*.

"Now, whether you have different banks, or whether you have only one bank, if there is a certain amount of circulation in the country, and a certain amount in London, and the Bank of England, or the central bank, purchase a large amount of bullion in London, that immediately disturbs the proportion that existed between the London circulation and the country circulation; and, on the other hand, if there is a demand for bullion to go abroad, and bullion is sold at the central office, that

will contract the circulation, and contract it much more than it could be immediately contracted in the country. If, therefore, the liability to a disproportion in amount between the country and the London circulation is a defect in the existing system, it is a defect which the establishment of only one bank of issue will not remedy."—*Gilbart*.

*7.—The Establishment of one Bank of Issue would Embarrass the Fiscal operations of the Government.*

"I may now state, with reference to the payment of the public dividends, that the Bank of England advances loans in December, before the dividends are paid, which loans are discharged after the dividends are paid, and thus the fluctuation in the currency is very considerably diminished from what it otherwise would be. Now, if we had a bank that could not do this, if the currency was issued upon what have been called currency principles, then the Chancellor of the Exchequer must have the whole amount of the January dividends in his strong room before he could pay those dividends. Out of the circulation of England and Wales, consisting of about £28,000,000, you must collect eight millions and a half, and lock them up in the custody of the Government previously to the payment of the dividends; then you pay out in a mass these eight millions and a-half, and that in a state of contracted currency; and thus you go on, four times in the year, producing the most violent and most extravagant fluctuations; whereas now, by the excellent plan adopted by the Bank of England, in issuing her notes before the payment of the dividends, by means of loans, which are discharged after the payment of the dividends, notwithstanding you pay eight millions and a-half of dividends, you produce a fluctuation in the currency of only two millions and a-half."—*Gilbart*.

*8.—One Bank of Issue would be destructive to Scotland.*

"Do you think the establishment of a single bank of issue for the United Kingdom would be advantageous or otherwise to Scotland?"... "I conceive that it must be very destructive to Scotland."

"In what way?"... "It is perfectly clear that it would overturn the present system of banking in Scotland. Our system of banking is based upon the power that our currency gives us to allow a high rate of deposit interest; if you take from us the profit that our currency yields, we must make our profit from some other source; we must increase the charges to the community, and allow less interest, or probably no interest at all, and our system will be totally changed."—*Kennedy*.

*9.—A Sole Bank of Issue is not adapted to the Trade of Ireland.*

"What would be, in your opinion, the effect of abolishing them (joint-stock banks) and establishing only one bank of issue?"... "It would produce an entire revolution in the monetary affairs of Ireland. The committee will already have gathered from the questions I have previously answered, that the produce is brought to market in very small quantities, and by a very large number, I had almost said an innumerable class, of farmers; each man brings his sack of oats and two or three pigs to market; it would be almost impossible, in such a state of things, to regulate by one bank of issue the monetary affairs of Ireland, or to adapt it to its purposes as it is now situated."—*Murray*.

*10.—The Principle of one Bank of Issue cannot be applied to the various Currencies of the United Kingdom.*

"What is the general conclusion which you propose to draw from the tables you have put in?"... "The general conclusion I would draw is, that the Bank of England is governed by certain laws which do not apply to the country circulation; that the country circulation of England is also governed by laws peculiar to itself; that the circulation of Ireland is also governed by laws peculiar to itself; that the circulation of Scotland is also governed by laws peculiar to itself; that those respective circulations are all governed by uniform laws, as is shewn by their arriving at nearly the same point at the same period of the year; and, therefore, that you cannot introduce any system by which all those various circulations, governed by different laws, can be amalgamated into one system: that such a system would be at variance with

itself, and would tend to destroy that beautiful system of country banking which now exists in this country—a system which has tended very much to the prosperity of this country, which, by receiving the surplus capital of different districts, and giving out the capital for the encouragement of trade, calls forth all the natural resources of the country, and puts into motion the industry of the nation, and at the same time supplies a circulation which expands and contracts in each district according as it is required by the trade or agriculture of the district. Those expansions or contractions take place at different periods of the year in different districts; the circulation expands when the wants of trade require it, and when no longer wanted it again returns; and I think this beautiful system, in the language of the resolutions passed by the deputies from the joint-stock banks ‘has greatly promoted the agriculture, trade, mining, and general industry of the nation, and that equal advantages cannot be produced by one bank of issue.’ ”—*Gilbart*.

At a general meeting of deputies from the Joint Stock Banks of England, Wales, and Ireland, held in London on the 4th June, 1840, the following resolutions were unanimously passed :—

“That the present mode of conducting the circulation of the country, by means of numerous issuers, controlled by an effective system of local exchanges, is well adapted to the state of the community, and powerfully promotes the agriculture, trade, mining, and general industry of the nation, and that equal advantages could not be obtained by one bank of issue.”

“That all persons interested in joint-stock banks be requested to communicate to those members of parliament with whom they are acquainted, the views entertained by this meeting as to those amendments of the law which are considered desirable, and the prejudicial effects that would result from the establishment of one bank of issue throughout the country.”

### LETTER III.

#### THE GENERAL EFFECTS OF SIR ROBERT PEEL'S MEASURES UPON THE JOINT STOCK BANKS.

##### *To the Directors and Managers of Joint Stock Banks.*

GENTLEMEN,—In my former letters I pointed out “the defects of the laws relating to joint-stock banks,” and presented you with a “summary of the evidence given before the Parliamentary Committee on Banks of Issue, in 1841, upon the establishment of one bank of issue.” I now beg to lay before you my opinions as to the effect of the measures proposed by Sir Robert Peel, so far as they relate to the interests of the joint-stock banks.

It must be acknowledged, that the principle of regulating the currency by the stock of bullion in the Bank of England, as proposed by Sir Robert Peel, is one which the joint-stock banks, as well as the private bankers, have strongly condemned. But since we cannot obtain the adoption of our own views, the question for our consideration is, whether the existing system, or that now proposed, will best promote the interests of our establishments? And we shall probably determine, that it is better to have a uniform law, the operations of which may be subjected to some degree of calculation, than unknown laws, which are applied or suspended according to the impulse of caprice.

The proposed measure is an experiment, and so excellent is the machinery that the experiment interferes as little as possible with existing interests; provision is made against its failure by allowing the government to authorize a further issue of notes whenever they think proper,\* and the old machinery being retained by the continuance of the country issuers, the return is easy to

\* This provision has not been inserted in the Bank Charter Act.

the former system, if necessary, before any serious injury can have been inflicted on the country.

As practical bankers, we contend that experience is the only test of the soundness of a theory. Let then "the currency principle" be tried by this test. If it succeeds, the joint-stock bankers, in common with every other class of the community, will share the advantage. If it fails, then other principles will, perhaps, be tried; and notwithstanding all the denunciations we have heard upon the subject, it may, perhaps, be ultimately found that the principle of "competing issuers," as practised in Scotland, is the only effective principle by which the currency throughout the United Kingdom can be managed.

It may be observed, that with regard to the currency, there is no part of the proposed plan that has an exclusive reference to joint-stock banks. If we are restrained in the issue of notes, so are the private bankers, and so is the Bank of England.

We will then waive for the present all discussions respecting the theory of the currency, and take a view of the practical bearing of the proposed measures.

We find that the joint-stock banks in London are empowered to accept bills like private bankers; that all banks can sue and be sued in the name and title of the company;\* that the board of directors only can bind the company; that all legal notices must be served upon the head officer, and that no shareholder, as such, shall be liable to the laws of bankruptcy. Possibly there may be other regulations of the same kind. It is also proposed that no joint-stock banks of deposit can be established without complying with certain regulations which shall ensure the respectability of the companies. Thus the character of our body will not be impaired by the addition of any unworthy members; and we are assured, that whatever competition the existing joint-stock banks may have to sustain hereafter, they will have no rivals but such as are under the government of honourable and well-conducted individuals.

With regard to the banks of issue, the main regulations are, that they cannot issue a larger amount than the average of the last two years; that they present a weekly account of their circulation; and that no new banks of issue be formed. Here some points of inquiry are suggested. If two banks unite, will the united bank be allowed to issue to the united amounts of their previous issues? In what way will the banks be required to ascertain at all times the exact amount of their circulation? Will a joint-stock bank of issue be allowed to establish a *non*-issuing branch within sixty-five miles of London? May it establish new issuing branches beyond the sixty-five miles, provided it does not at all its branches issue beyond the prescribed amount? And is it not rather unfair to take the average of the last two years, when the amount was greatly reduced, as the maximum of their future issues? These points will probably be satisfactorily explained when the details of the measure are brought before Parliament.

The prohibition of other banks of issue, secures to the existing banks the present amount of issues for the next ten years. Thus, though their circulation is limited on one hand, it is virtually guaranteed on the other. If new banks of issue were allowed, as heretofore, to be established, and the spirit of speculation was to take that direction, as it did in 1836, how many of the existing banks could calculate with equal certainty upon maintaining for ten years to come the present amount of their circulation? They are required to publish the weekly amount of their issues; but so are the private bankers; and is not the knowledge which the joint-stock banks will gain of the circulation of their rivals a sufficient compensation for any annoyance they may feel

\* These privileges have not been conferred as was expected upon all joint-stock banks, but on those only who may obtain charters under the Joint-Stock Bank Regulation Act.

through the disclosure of their own? Still, in certain seasons of the year, the wants of a district will require a larger amount of notes than the country banker is allowed to supply. In this case he must, as Sir Robert Peel states, sell government stock, and get Bank of England notes, charging his customers, of course, for the additional expense occasioned by the operation.

Beyond the practical benefits thus acquired, the measure will probably be productive of some collateral advantages.

One advantage is, that by the proposed measures the joint-stock banks are for the first time placed upon an equality with private banks. Whenever legal disabilities are, either justly or unjustly, inflicted upon private individuals or on public bodies, the parties are always damaged in general estimation. Such has been the case with the joint-stock banks; but from this evil they will now be free. The legal distinction between banks having NOT more than six partners, and banks having more than six partners, will no longer exist. All banking companies will be equal in the eye of the law, and each individual bank will take that standing in public estimation to which it will be entitled by its own character and conduct.

Another advantage is, that the joint-stock banks of issue will be delivered from those unjust accusations to which they have hitherto been exposed. Almost every evil that has befallen the country for the last ten years has been ascribed by different writers to the reckless issues of the joint-stock banks; and though the charge has been oft refuted, yet such has been the talent, zeal, and perseverance with which it has been revived, that it has doubtless in some degree prejudiced the public mind. But now this charge can be made no more. Our assailants are compelled to observe at least a ten years' truce. During this period we shall have no Bank directors publishing pamphlets to show that their efforts to regulate the exchanges have been counteracted by the imprudent issues of the joint-stock banks. Our notes will not again be classed by the authors of "prize essays" among the causes of national distress, and philosophical writers will no longer declaim in eloquent metaphor, against "the wild democracy of rival issuers." It is no small matter to be put into a position wherein we shall be sheltered from the peltings of unjust accusations.

The measures of Sir Robert Peel will probably lead to a more friendly intercourse between the joint-stock banks and other banking establishments. All the hostile measures heretofore taken by the Bank of England, against the joint-stock banks, have arisen from erroneous impressions relating to the currency. The London joint-stock banks were not allowed to accept bills, from an absurd fear that the practice might be abused so as to affect the currency. Bills endorsed by joint-stock banks of issue were refused to be discounted, lest they might become an instrument for expanding the currency. By the proposed measures this bone of contention is removed. The Bank of England has laid aside her coronet, and become one of us. She is about to commence business simply as a joint-stock banker. "The Old Lady of Threadneedle-street" is transformed into our younger brother, and it may be hoped that this new relationship will be cemented on both sides, by a corresponding degree of fraternal regard.

Another effect of Sir Robert Peel's measures is, that it will tend to improve our system of management. In cases of pressure on the money market, arising from an unfavourable course of exchange, the Bank of England will not be able, as heretofore, to relieve that pressure by a further issue of notes, and, so far from granting assistance to other banks, she may, from the extent of her transactions, be more in need of assistance herself. We must, therefore, conduct our banks, individually, on a principle of self-dependence; we shall have to limit our overdrawn accounts, to avoid all advances on inconvertible security, and to call up such an amount of capital as shall



secure to us the means at all times of giving reasonable accommodation to our customers. On the recurrence of a pressure, similar to that of 1839, the cry will be *saute qui peut*—every one must take care of himself.

Such will probably be the effects of the measures proposed by Sir Robert Peel, but should they work less favourably than we expect, we need not fear for the prosperity of joint-stock banking institutions. We have prospered when the laws were less favourable, and we shall prosper still. The principle of aggregation among banks, call it by what name we may, is sure to extend. Ten years hence, the banks both in London and in the country will be fewer in number, but they will be more powerful and more united. The banking interests will by that time have gathered such strength, that should the present experiment on the currency not succeed, the unlimited power of issue may again be placed in our hands, without any apprehension on the part of our rulers that the trust will be endangered either by our insolvency or imprudence.

I am, Gentlemen, your obedient servant,

London, May, 9th, 1844.

NEHEMIAH.

## LETTER IV.

### THE EFFECTS OF SIR ROBERT PEEL'S MEASURES UPON THE SYSTEM OF BANKING IN LONDON AND THROUGHOUT THE COUNTRY.

#### *To the Directors and Managers of the Joint Stock Banks.*

GENTLEMEN,—In my letter of the 9th of May I suggested, what appeared to me to be, the wisest course for the joint-stock banks to adopt, and pointed out some of the effects likely to flow from the measures of Sir Robert Peel, with regard to the renewal of the Bank Charter.

I am gratified to find that the Committee of Joint Stock Banks have adopted the course I took the liberty to suggest. In their communications to the government they have made no reference to the subject of the currency, nor even to those enactments which had a special reference to the Bank of England—they alluded only to those parts of the measure which had a practical bearing upon their own establishments—and on these points they obtained several important modifications.

It may be remarked, that in their efforts to obtain an amelioration of the proposed measures affecting joint-stock banks of issue, the London private bankers, who are the business agents of most of these banks, and are also the agents for the joint-stock banks of issue in Scotland and Ireland, seem to have rendered no assistance. They memorialised the government, indeed, but it was not on behalf of the country circulation. The private country bankers were left to take care of themselves, and the cause of the country joint-stock banks was supported chiefly by the joint-stock bankers of London, who, having obtained all they wanted for themselves, had no direct interest in the question of circulation, and had comparatively but few business connections among those whose cause they advocated. It is to the exertions of Mr. P. M. Stewart and his coadjutors that the country banks of issue, whether private or joint-stock, are mainly indebted for the modifications that have been obtained.

Let us then take a view of the present state of the law with regard to the joint-stock banks, beginning with those of London.

The Bank Charter Act gives to these banks the power of accepting bills drawn at less than six months after date, and the Joint Stock Bank Regulation Act gives them the power of suing and being sued by a public registered officer, in the same way as banks beyond sixty-five miles from London. The practical effect of these measures is, that they can take without impediment

the agency of private and joint-stock banks in the country, of foreign banks, and of banks in the colonies; that they can issue circular notes for the use of travellers on the Continent, who will not again be exposed to such losses as were incurred by the failure of Messrs. Hammersley & Co., and that the banks can sue all parties owing them money, without requiring their customers to sign a special contract.

These privileges will place the London joint-stock banks upon a level with the private bankers. Hence it is probable that some of the country joint-stock banks will gratify the desire, which it may be presumed they have always entertained, of connecting themselves with joint-stock banks in London. Some private country bankers, for the sake of additional security, may follow their example. These results are more likely to occur, from recent events having shewn that the London private bankers have no influence whatever in obtaining privileges even for themselves; and, from the recent declaration of the meeting of London private bankers, held in the clearing house, that the restrictions on the circulation will probably deprive them hereafter of the means of rendering adequate assistance to their customers in seasons of pressure.

But the greatest injury the London private bankers will sustain will probably arise from the rivalry of the Bank of England. Unable to increase their profits by the extension of their circulation, this powerful corporation will probably apply all their energies to the extension of their banking business. Troublesome regulations will probably be abandoned, and business conducted with the same facilities as at private establishments. From this and other causes, many of the customers of the private bankers will probably transfer their accounts to the Bank of England. Thus, from the operations of the London joint-stock banks on one side, and from those of the Bank of England on the other, the London private banks may ultimately find themselves in the position of Issachar. From this position some of them will probably be extricated, either by turning their banks into joint-stock banks, or merging them in those already established.

The joint-stock banks of issue are excluded, as they were before the passing of the Bank Charter Act, from the circle of sixty-five miles round London; and they are restricted, which they were not before, from taking up the business of private banks, even beyond the sixty-five miles, and having the benefits of their circulation. They are, also, in common with the private bankers, limited as to the maximum amount of their issues; and like them, too, exempted from all competition with new banks. Taking the restrictions and the privileges together, the existing joint-stock banks are, probably, in a better position than they would be by the unlimited power of issue. But the continued exclusion from the circle of sixty-five miles from London, and the prohibition of unions with private banks, must tend greatly to restrain the practical extension of the principle of joint-stock banking.

All the alterations made in the Bank Charter Bill, during its progress through the House of Commons, were more advantageous to the joint-stock banks than to the private bankers. It was originally proposed that the guide of the future circulation should be the average of the last two years. The private bankers asked for the average of the last five years,—the joint-stock banks for the maximum of the two years. And Sir Robert Peel ultimately determined on the average of the last three months previous to the announcement of the measure to Parliament. The respective amounts are as follows:—

	Private Banks.	Joint Stock Banks.
Average of the two years.....	4,916,494	3,061,562
Average of the five years.....	5,761,792	3,485,329
Maximum of the two years .....	5,295,239	3,752,867
Average of the three months.....	5,062,945	3,532,213

Thus it appears that the joint-stock banks have obtained a higher amount of circulation than the average of the five years, while that of the private bankers is about £700,000 less.

The alteration from a weekly to a monthly average was more in favour of the joint-stock banks, as their branches are more numerous than those of the private banks, and consequently the difficulty of the weekly averages would have been greater. The permission to close branches and open others, still retaining the same amount of circulation, is of great value to the joint-stock banks, as in case of the falling-off of the business of a branch, another branch may be opened, and thus the profit on the whole circulation be still retained. The postponement of the operation of the act until the 10th of October, was also of most advantage to those banks whose branches were most numerous.

The amount of circulation granted to the joint-stock banks, will, probably, become more valuable from the gradual decline of that of the private bankers. Without casting any reflection on the private bankers, it may be fairly calculated that in the course of a few years the amount of their circulation will be less than at present. An unwillingness to publish the amount of their issues, a disposition to retire from business, misfortune, death, and other circumstances, may cause a withdrawal of the circulation of a country bank; and, when once withdrawn, it can never be restored. Even should the Bank of England be disposed to fill up the void, they cannot issue to more than two-thirds the amount. It seems likely, therefore, that the exclusive privilege of circulation granted to the joint-stock banks for ten years to come will become increasingly valuable.

Although the Bank of England has never imposed any dishonourable conditions on those joint-stock banks who have consented to issue her notes, yet it cannot be denied that these banks have stood aloof as a class by themselves, and seem to have had an impression that their connection with the Bank of England precluded them from that freedom of action in which other banks might indulge. Hence we find that but few of these banks have ever sent representatives to the general meeting of deputies, or subscribed to their funds; and some of them have assigned their connection with the Bank of England as a reason why they should not appoint as their London agents those banks against whom it was considered that the Bank of England entertained an unfriendly feeling. This state of supposed dependence will no longer exist. The Bank of England will not, probably, discount for these banks at a lower rate than to other parties; nor engage at all times to discount to a stipulated amount. These banks will now, therefore, most likely discount their bills in London whenever the market-rate of money is lower than the bank rate. Or they may form business engagements with those joint-stock banks who have abundance of surplus funds, and thus the surplus capital of the agricultural will be transferred to the manufacturing districts without the intervention of the London bill-brokers. The compensation of one per cent. granted for the abandonment of their issues is secured until the 1st day of August, 1856, and is not dependent on the pleasure of the bank.

All the joint-stock banks, whether they issue notes or not, have the power of obtaining the privileges conferred by the Joint-Stock Bank Regulation Act. But the conditions would, in most cases, require an alteration of the deed of settlement, and are attended with practical inconveniences. By this act all shares must be not less than £100; no bank to have a less capital than £100,000, half of which must be paid up. Nine shareholders, holding twenty-five shares, have the power of calling extraordinary meetings of the company. An account of the assets and liabilities must be presented monthly. One-fourth of the directors must retire annually, and are not eligible for re-election for one year. Two auditors must be appointed, and their report, with a balance-sheet of the affairs of the bank, must be sent annually to every shareholder. Upon all new banks these conditions are obligatory. Existing

